

# FDIC State Profile

Spring 2005

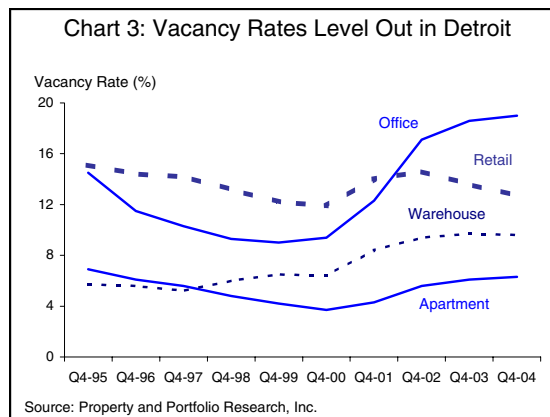
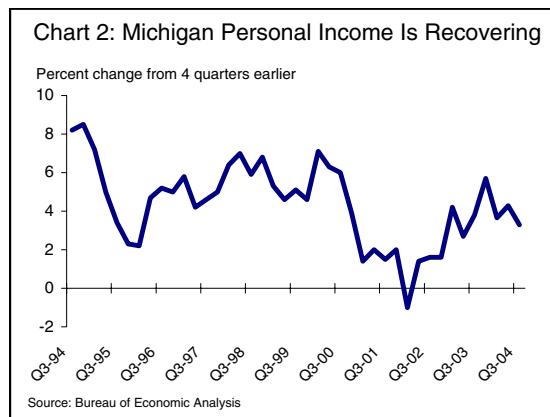
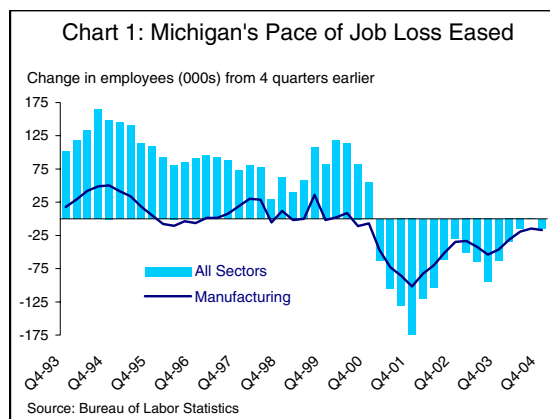
## Michigan

Michigan's economy remains lackluster.

- Although its job losses were less severe than the prior year, Michigan stood out as the only state in the nation where employment fell between fourth quarter 2003 and fourth quarter 2004. The manufacturing sector, which accounts for about 16 percent of Michigan jobs, was the reason for the decline (See Chart 1). All other sectors, combined, posted a small increase in employment.
- The **Saginaw, Lansing-East Lansing, and Grand Rapids-Wyoming** metropolitan areas saw job losses of 1.4 percent or more, while the **Detroit** metropolitan area lost less than 1.0 percent and the **Ann Arbor** area lost less. The largest declines typically were in the manufacturing and retail trade sectors. Fourth-quarter 2004 employment in the state's remaining metropolitan areas of **Benton Harbor, Flint, Jackson, and Kalamazoo** changed marginally relative to a year earlier.
- Although Michigan's payrolls continued to shrink, personal income growth improved because many of those employed worked longer workweeks in 2004. Personal income growth ranged from 2.7 percent to 5.7 percent each quarter between first quarter 2003 and third quarter 2004. In contrast, the state saw gains of 2 percent or less during 2001 and 2002 (See Chart 2).

The Detroit area lacks vitality on several fronts.

- The Detroit metropolitan area is home to about 45 percent of the state's population and employment. Slack population growth in recent years reflects, in part, net out-migration of residents. Detroit's labor force stabilized recently after contracting by about 4 percent between year-ends 1999 and 2003.
- Payroll employment declined by 1 percent in the year ending fourth quarter 2004 following a 7 percent decline between year-ends 2000 and 2003. A majority of the past year's loss occurred in the manufacturing and retail trade sectors, although government also saw sizeable cutbacks.
- The City of Detroit and its school system face significant fiscal challenges. The mayor plans to cut 900 positions from the city's payroll, while more than 350 teachers were



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laid off in late 2004, and 40 schools may close this summer.<sup>1</sup>

- For the **Detroit-Warren-Livonia** area, price appreciation for homes resold or refinanced accelerated to 4.6 percent recently, ranking 278th among 362 metropolitan areas nationwide. Although appreciation may appear slow by national standards, it is on par with much of the Midwest.
- Vacancy rates for commercial properties appear to be stabilizing (See Chart 3). The relatively high inventory of available space may persist for some time, given the area's poor demographic trends, sluggish economy, and the headquarters presence of many "old line" (and often downsizing) corporations.

### Insured institution performance changed slightly in 2004.

- Profitability at community institutions<sup>2</sup> dipped slightly in 2004 as most components of net income changed modestly relative to 2003, with the exceptions of noninterest income and expenses (See Table 1).
- Net interest income is affected in part by how significantly funding costs respond to market rates. As the fed funds rate rose by 94 basis points between second and fourth quarters 2004, the cost of funding among Michigan's large banks rose by 31 basis points. Community institutions experienced only a 9 basis-point rise (See Chart 4).
- One reason large bank funding costs react more to market rates is their smaller core deposit base: the aggregate core deposit-to-asset ratio for large Michigan institutions was under 61 percent at year-end 2004, in contrast with more than 63 percent at community institutions.

### Asset quality improved at community institutions.

- The overall past-due and nonaccrual rate on loan portfolios fell to 2.23 percent on December 31, 2004, from 2.70 percent a year earlier, and all of the largest loan segments improved (See Chart 5). The past-due rate for home equity loans edged up but remained much lower than for other types of loans.
- The past-due rate for 1-4 family mortgages of 2.98 percent on December 31, 2004, was below 3 percent for the first year-end since 1998 yet higher than for other loans. Mortgages, which account for about 31 percent of loan portfolios, traditionally are considered a high quality loan type. Michigan households, however, have experienced greater growth in per capita bankruptcy filings and

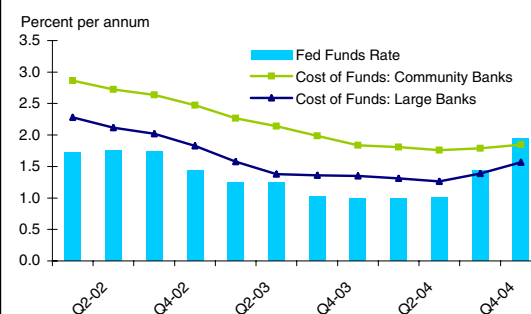
mortgage foreclosures in recent years relative to the nation.

**Table 1: ROA of Community Institutions Changed Little in 2004**

Income statement contribution (as a percentage of average assets)			
	Calendar year		Percentage Point Change
	2003	2004	
Net Interest Income	3.71	3.73	0.02
Noninterest Income	1.28	1.12	-0.16
Noninterest Expense	-3.30	-3.19	0.11
Provision Expense	-0.21	-0.18	0.03
Security Gains & Losses	0.05	0.01	-0.04
Income Taxes	-0.45	-0.43	0.02
Net Income (ROA)	1.08	1.06	-0.02

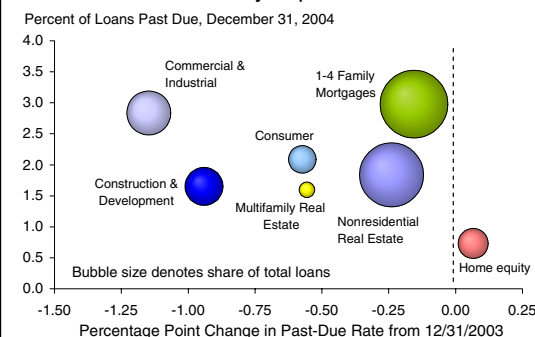
Source: FDIC. Merger-adjusted Data for Michigan's Community Banks and Thrifts.

**Chart 4: Cost of Funds at Large Banks Responded More to Recent Upturn in Market Interest Rates**



Source: FDIC. Merger-adjusted Data for Michigan's Institutions.

**Chart 5: Portfolio Quality Improved in the Past Year**



Source: FDIC. Merger-adjusted Data for Michigan's Community Institutions

<sup>1</sup>Jodi Wilgoren, Shrinking, Detroit Faces Fiscal Nightmare, The New York Times, February 2, 2005.

<sup>2</sup>Community institutions are insured banks and thrifts with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks and thrifts. Large institutions have assets of \$1 billion or more. Data are adjusted for merger activity.

## Michigan at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	-0.4%	-1.4%	-0.6%	-3.7%	1.2%
Manufacturing (16%)	-2.6%	-6.1%	-4.4%	-11.4%	-0.7%
Other (non-manufacturing) Goods-Producing (5%)	-1.2%	-1.7%	-4.9%	-1.4%	2.1%
Private Service-Producing (64%)	0.1%	-0.3%	0.4%	-2.5%	1.6%
Government (16%)	0.3%	-0.4%	0.9%	0.3%	1.6%
Unemployment Rate (% of labor force)	7.4	7.0	6.3	5.9	4.1

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	5.7%	1.6%	2.0%	3.9%
Single-Family Home Permits	-5.1%	8.1%	17.5%	-1.5%	-12.0%
Multifamily Building Permits	15.3%	-8.4%	15.6%	-23.1%	20.4%
Existing Home Sales	-0.7%	3.9%	1.8%	9.0%	2.0%
Home Price Index	4.4%	4.2%	4.1%	5.3%	7.1%
Bankruptcy Filings per 1000 people (quarterly level)	1.54	1.51	1.48	1.17	0.90

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	173	178	180	181	190
Total Assets (in millions)	194,650	196,664	166,402	175,090	170,013
New Institutions (# < 3 years)	4	8	13	18	21
Subchapter S Institutions	12	10	8	7	5

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.83	2.15	2.22	2.06	1.84
ALLL/Total Loans (median %)	1.24	1.30	1.32	1.26	1.28
ALLL/Noncurrent Loans (median multiple)	1.67	1.41	1.40	1.77	2.15
Net Loan Losses / Total Loans (median %)	0.12	0.14	0.16	0.11	0.07

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.31	9.08	8.83	8.85	8.97
Return on Assets (median %)	0.97	1.10	1.13	1.09	1.14
Pretax Return on Assets (median %)	1.35	1.54	1.58	1.57	1.62
Net Interest Margin (median %)	4.08	4.12	4.29	4.34	4.49
Yield on Earning Assets (median %)	5.72	6.00	6.84	7.99	8.44
Cost of Funding Earning Assets (median %)	1.70	2.00	2.59	3.66	3.96
Provisions to Avg. Assets (median %)	0.15	0.19	0.23	0.20	0.16
Noninterest Income to Avg. Assets (median %)	0.73	0.89	0.80	0.73	0.65
Overhead to Avg. Assets (median %)	2.97	3.12	3.11	3.14	3.10

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	76.2	74.0	73.2	74.4	74.1
Noncore Funding to Assets (median %)	20.5	18.6	20.1	20.0	21.3
Long-term Assets to Assets (median %, call filers)	11.7	12.5	11.6	12.2	11.7
Brokered Deposits (number of institutions)	68	63	62	56	53
Brokered Deposits to Assets (median % for those above)	8.6	7.1	7.3	3.3	8.5

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	88.3	93.4	98.4	97.4	103.1
Commercial Real Estate	255.5	236.9	223.0	205.1	175.7
<i>Construction &amp; Development</i>	51.3	45.9	41.5	36.5	28.3
<i>Multifamily Residential Real Estate</i>	5.1	4.9	4.0	2.6	2.3
<i>Nonresidential Real Estate</i>	186.0	186.8	171.1	158.8	130.7
Residential Real Estate	272.0	287.2	295.2	303.3	304.6
Consumer	36.1	39.6	47.0	55.8	70.6
Agriculture	3.7	4.2	4.1	4.0	5.6

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Detroit-Warren-Livonia, MI	56	76,201	< \$250 mil.	119 (68.8%)
Grand Rapids-Wyoming, MI	31	10,940	\$250 mil. to \$1 bil.	41 (23.7%)
Lansing-East Lansing, MI	25	4,926	\$1 bil. to \$10 bil.	9 (5.2%)
Ann Arbor, MI	17	4,445	> \$10 bil.	4 (2.3%)
Flint, MI	13	3,782		